

**PARTNERSHIP FOR MARKET READINESS (PMR)
Fourth Meeting of the Partnership Assembly (PA4)
Sydney, October 22-24, 2012**

Feedback on draft Market Readiness Proposals (MRPs): CHILE

Summary compiled by the PMR Secretariat

Background

Chile submitted a draft Market Readiness Proposals to the PMR Secretariat in September 2012, and presented it for consideration by the Partnership Assembly (PA) at PA4.

Resolution PA2/2011-3 endorsed a process for providing feedback on Market Readiness Proposals. It consists of two parts: (i) feedback from PMR Experts; and (ii) feedback from PMR Participants.

A PMR Expert Group consisting of Mr. Felix Matthes (Germany), Ms. Christina Hood (OECD) and Ms. Zheng Shuang (China) provided feedback on Chile's draft MRP, as did the PMR Secretariat and the World Bank, acting as the Delivery Partner. In addition, Ms. Christina Hood, together with the PMR Secretariat, conducted two day in-country visit to Santiago on September 13 and 14, 2012 to discuss the preliminary draft MRP.

Chile submitted its revised draft MRP on October 8, 2012, which was circulated to all PMR Participants. A representative from Chile presented the draft MRP at PA4 in order to seek feedback from Participants and to allow all PMR Participants to view a complete proposal prior to the submission of the final version. Subsequently, Participants were invited to submit written feedback on the draft MRP.

This note contains two parts: Part A includes a summary of the feedback and comments made during Chile's MRP presentation at PA4 and Part B includes written comments on the MRP that were submitted by Participants following PA4. Comments in Part B are recorded in this summary as they were submitted, without further summarization. The secretariat received written feedback on Chile's MRP from Australia, the European Commission, Germany, The Netherlands, and South Africa.

Action:

Chile is invited to take into account the feedback included in this summary as it finalizes its MRP. It is important to note that some of the feedback is applicable for the finalization of the MRP while some will be relevant during the Implementing Country's PMR Implementation Phase.

A final MRP should be submitted to the PMR Secretariat 3 weeks prior to the PA meeting during which the Implementing Country Participant seeks a PA decision on the allocation of Implementation Funding.

CHILE

Chile's presentation was made by Mr. Ignacio Fernandez, Ministry of Energy.

PRP Objectives

The main focus of the draft MRP is to develop the design for a pilot emissions trading scheme (ETS) for the energy sector in Chile, also involving (i) the design of an MRV system for Chile; (ii) the design a registry system for a voluntary pilot ETS; (iii) building of technical and institutional capacities; and (iv) the design complementary instruments.

A. Feedback and clarifications made during PA4

a) General Feedback

- Overall, the Partnership Assembly (PA) appreciated the presentation of the MRP and appreciated the clarification that the draft MRP is meant to contribute to informing a political decision on ETS in Chile.
- Participants also appreciated the analysis done on the choice of an ETS as a potentially suitable instrument in Chile's context.
- Regarding the draft MRP, it was noted that the document was difficult to understand. Participants considered that greater elaboration of the content of the MRP was needed to provide greater clarity and enable better understanding of Chile's situation, the gaps and its plans.

b) Specific feedback and request for clarifications

Political context

- Clarification sought on reference to Chile's pledge (page 16 of draft MRP).
- Clarification sought on Chile's political commitment.

General direction

- It was recommended that the MRP provide a view of what is being envisioned/will be explored by Chile and be more specific in the MRP – even if some elements end up not moving forward due to outcome of political process.

ETS pilot

- Clarification sought on the nature and focus of the envisioned ETS pilot (for which greater elaboration in the final MRP was recommended):
 - Nature of the pilot scheme: is the "voluntary nature" fixed and are there plans/proposals to address risks associated with voluntarism?
 - It was suggested that Chile examine insights from voluntary pilot schemes in other countries (e.g., Denmark's ETS pilot), such as the merit of starting with a sector that is not subject to international competition and the need for incentives to have a voluntary scheme to work. Relevant studies will be shared with Chile.
 - Target area: it was suggested to make the focus of the ETS pilot clear in the final MRP.
 - Uncertainties: Chile may consider including analysis of why ETS is not guaranteed and what are the concerns. Is there modeling and analysis that can show that it is possible to address concerns?

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Role of Scaled-up Crediting Mechanism (SCM)

- Clarification sought on the envisioned role for a SCM and potential implications (as draft MRP includes a reference to SCM as a potential precursor to an ETS).

MRV

- It was suggested that the content of the MRP be elaborated to include some greater clarification in MRV procedures that are envisioned.

Expected outcomes/deliverables from PMR Implementation Phase and proposed conceptual framework

- Recognizing the MRP focus on a conceptual framework and transition management and the inherent uncertainty surrounding a political decision on whether or not to implement an ETS, what will be the output from the PMR support? (the MRP is not clear on what are the expected deliverables).
- It was suggested to include “resilient” elements in the MRP to ensure concrete and useful deliverables and outputs in case of a negative political decision on implementation of an ETS.

Inter-ministerial linkages/coordination

- Clarification sought on the relation between what is being proposed in the draft MRP led by Ministry of Energy and what the Ministry of Environment is doing in area of ETS.

c) Chile’s clarifications

Political context

- Chile has a political commitment to reduce emissions and a political commitment to explore an ETS as a potentially good instrument to help meet Chile’s objectives cost-effectively. However, there is no decision or commitment, at this stage, to *implement* an ETS. Chile sees readiness as a phase to explore what is the best instrument to achieve its GHG target, as pledged in Copenhagen.
 - It was clarified that the reference to Chile’s pledge on page 16 of the draft MRP represents the consultants’ opinion; not the government’s position.

ETS

- The nature (voluntary or mandatory) of a pilot ETS scheme will ultimately be a political decision. At this stage, there is no commitment toward a mandatory scheme. Chile’s MRP is about elaboration of design for a voluntary scheme.
- There are many questions that will need to be answered during the work and the process in the PMR implementation phase. Some of the questions are on the type of ETS and type of MRV. Emphasis in the MRP is placed on the process to understand key issues and options and identifying potential recommendations for decisions.

Expected deliverables from PMR Implementation Phase and conceptual framework to inform political decision

- There is a need to feed political decisions with technical work and vice versa. This is what is envisioned in Chile’s MRP. For example, a working registry, working MRV system and ETS design that has benefitted from stakeholder input, would inform and may facilitate a political decision.
- It was clarified that analysis and research is part of the expected work in the PMR Implementation Phase. The final MRP will seek to clarify expected outputs.

Inter-ministerial linkages/coordination

- It was clarified that the Ministry of Environment is elaborating a framework for legislation on broad ETS (for local and global pollutants). However, the legislation itself will not establish an ETS. Chile’s MRP is about ETS design for GHG emissions.

- It was also clarified that the Ministry of Environment—as well as other ministries—is part of Chile’s Steering Committee for MRP. It was explained that the Council of Ministers would need to approve any final proposal.

B. Written feedback on Chile’s draft Market Readiness Proposal submitted by PMR Participants

PMR Participant	Written Feedback on Chile’s draft Market Readiness Proposal
Australia	<p>Australia congratulates Chile on its comprehensive Market Readiness Proposal to develop a pilot emissions trading scheme (ETS) and potentially a complementary sectoral crediting mechanism. We welcome the supporting information provided in Chile’s PA4 presentation and suggest it would be useful to incorporate this information into the final MRP.</p> <p>As Australia has implemented a national ETS, we understand the technical complexities and political sensitivities involved, particularly at this early stage in the process. Accordingly, we appreciate the MRP’s focus on the process to lay the groundwork for an eventual political decision on a market mechanism, starting from fundamental questions of design.</p> <p>We welcome the focus on discrete, practical elements in Chile’s presentation at PA4 such as developing measurement, reporting and verification (MRV) capacity. In Australia’s experience, robust MRV and governance frameworks are crucial underpinnings to a robust ETS. This will also be critical for any future international linking arrangements, particularly with regard to demonstrating the environmental integrity of emission reductions to unit purchasers. It will be important to avoid double counting credits generated from Clean Development Mechanism projects with any future crediting mechanism.</p> <p>Australia also encourages Chile to clarify the institutional framework for the proposed MRV system. This includes the role of the proposed national greenhouse gas office in fulfilling a range of responsibilities such as data collection, emissions accounting and reporting (at the international, national and company/facility/project levels) and issuance and tracking of units. We understand that much of this work will be done through the first stage of implementation of the pilot ETS. At this stage it would be useful if Chile could clarify the relationship between the Council of Ministers for Sustainability, the MRP Steering Committee and the MRP Focal Point; and how a close working relationship between the Project Coordinator and the Ministry of Energy in its role as MRP Focal Point will be promoted (see diagram on page 55).</p> <p>Australia also welcomes that the MRP acknowledges the need to set clear timeframes for decision points. This will help to clarify the direction and intended outcomes of Chile’s work through the PMR.</p> <p>Finally, we suggest that Chile consider in its MRP how the outcomes of any pilot ETS or crediting mechanism could be evaluated. It may be useful to provide for a framework or process to capture lessons learned from any pilot scheme and propose a transition to a permanent scheme.</p>
European Commission	<p>The European Commission welcomes the orientation taken by Chile in its MRP presented at PA4 of developing a roadmap showing the intended path to a political decision on the overall role of an ETS in Chile’s climate policy, and on a decision to proceed with a voluntary pilot of the ETS.</p>

	<p>However it is recommended that a more clear decision is taken within the MRP on which market instrument the proposal will be focusing. In fact together with the development of the possible pilot ETS also a Scaled-up crediting mechanism (SCM) is proposed. It is not clear how this instrument could interact with a possible ETS. In fact the MRP gives at the moment three different options in this sense: "an SCM could be adopted as a transition to a potential future pilot ETS; could co-exist with an ETS or could be established independently of an ETS".</p> <p>Furthermore it is recommended to better clarify in the MRP the political commitment which is intended to be the necessary condition in order to effectively implement a market instrument in Chile's climate policy.</p>
Germany	<p>Chile identifies a number of outputs envisaged to be supported under PMR in order to assess potential options for a domestic carbon market (e.g. p. 7 – desired outcomes). In order to clarify the overall target of PMR support, we suggest elaborating in more detail on the logical and chronological steps that Chile is planning to undertake as part of developing market-based instruments adapted to its national context and to explain the linkages between the outputs mentioned.</p> <p>In this regard, the identified decision points (pp. 48f) seem like a helpful checklist. This list could also be used as a way to structure the paper and assess what information and decisions/ preferences already exist and through which (PMR) activities Chile would like to prepare the decision-making process on the respective point. This could help the reader/ PA members to better understand where Chile currently stands, where it would like to go, where decisions have yet to be made, what options are currently discussed, etc.</p> <p>As to the potential role of a scaled-up crediting mechanism we would like to learn more about a) the potential linkage between the SCM and the (pilot) ETS that Chile intends to look at, b) how the ETS price will be of relevance for the SCM (p 14) c) and on the potential linkage between ETS and NAMA (p. 12).</p> <p>Germany believes that in order to lay the basic ground for analysis, the cited findings of the consultants' studies (e.g. p. 16) can be helpful. For more specific decision-making, it might be of greater use to have more context and country specific recommendations (and potentially also research questions). We believe that the more generic the recommendations and findings are, the less helpful they will be for the Chilean government. This could be taken into account also for future studies.</p> <p>Crucial for the success of any further planning, as well as implementation will be the institutional set-up and clear institutional responsibilities. Chile well outlined in its MRP and the presentation that this is a challenging task, and we are aware of the political challenges related to introducing an ETS. However, we believe that for the success of any PMR activities, a) respective roles and b) ownership of all affected ministries and other political stakeholders should be as clear as possible. Consequently, some of the challenges that Chile identifies in its MRP seem unlikely to be overcome by technical (external) assistance but are dependent upon political decisions. This might be further included into the MRP in order to systematically assess what PMR work can do in order to reach which specific milestone for decision-making. It can also function as a transparent disclaimer on scope and limits of PMR support. Furthermore, it should be clearly elaborated in the MRP, what alternatives to the pilot-ETS Chile would use to meet its pledge by 2020 and how the preparatory work done within the PMR could also serve these alternatives.</p>

<p>The Netherlands</p>	<p>Chile is commended for its progressive work towards a national ETS, which is very much appreciated. Chile also deserves a compliment for the thorough start of this process with 4 separate and parallel studies.</p> <p>Reading the document it became clear that Chile still has quite some work to do (which is what the PMR is for to support this), but the wording of some paragraphs (notably in box A on page 16) can be interpreted in different ways, thereby possibly raising doubt about the commitment of Chile to work towards an ETS. This was discussed at the PA4 meeting and after Chile expressed its firm willingness and commitment to move forward the Netherlands made some text suggestions to make this more explicit in the next/final version of the MRP.</p> <p>From the proposal and the feedback received it is understood that obtaining full support within the Chilean government for an ETS will still need more work, which is also reflected by the elements of transition management in the MRP. That as such is ok, but it is still recommendable to widen the support for an ETS within the government as soon as possible.</p>
<p>South Africa</p>	<p>Chile's approach is more based on its context and the projected increase in energy consumption, at same time – the acknowledgement of the need for international support in order to reduce emissions. It seems Chile has some prior experience on water rights as well as transferability of fishing quotas. In addition, the issue of CDMs that have been registered with CDM executive board.</p> <p>In as far as the introduction of ETS is concerned – Chile expressed the need to conduct the necessary research in order that it may be ready to introduce such an instrument in future. Research is a very strong basis for informed policy decision(s). This may be the trend for most developing countries as they may require the implication such market based mechanisms may have on priority and/ or sensitive sectors of their respective economies.</p> <p>It is recommended that Chile be afforded and opportunity or necessary support to conduct any such related research.</p>